Jewel Companies, Inc.

Annual Report 1979

Results in Brief

Jewel Companies, Inc.
Diversified Retailers

(In thousands except per share data)

	52 Weeks 1979	53 Weeks 1978	% Increase
Sales	$3,764,266	$3,516,352	7.1%†
Earnings of U.S.Companies	$ 36,143	$ 32,666	10.6
Equity in Net Earnings of Aurrera, S.A.	14,543	8,476	71.6
Net Earnings	$ 50,686	$ 41,142	23.2
Earnings Per Average Common Share Outstanding:			
Earnings of U.S. companies	$ 3.24	$ 2.85	13.7
Equity in net earnings of Aurrera, S.A.	1.30	.74	75.7
Net earnings	$ 4.54	$ 3.59	26.5
Earnings of U.S. Companies as a Percent of Sales	.96%	.93%	
Net Earnings as a Percent of Shareholders' Average Equity	14.0%	12.1%	
Dividends Paid Per Common Share	$ 1.62	$ 1.37	
Average Common Shares Outstanding	11,155	11,442	

*†Excluding the 53rd week in 1978 and the sales of the Company's Turn*Style division which was sold in June 1978, the sales increase was 10.5%.*

The cover shows some of the wide range of territories in which Jewel is represented:

1. Mexico, as shown in this picture of the Independence Monument in the heart of Mexico City.

2. New England, as reflected in this view of Boston.

3. Chicagoland, with Chicago's spectacular lakefront.

4. The Northwest, where Buttrey does business in cities like Kalispell, Montana.

5. The Southeast, shown in the Tampa Bay area where the first Jewel T Discount Grocery Stores were opened.

6. In the Midwest, Eisner's home town of Champaign/Urbana.

7. The Central States, where Osco operates in many locations.

Table of Contents:

James H. Henson, President of Jewel Food Stores.

Jo H. Armstrong, President of Star Markets.

This Jewel T Discount Grocery in Covina, California, is one of 8 new stores in Southern California.

customers. As many as 168 generic items are available in the Company's supermarkets.

We enter 1980 with new leadership at Jewel Food Stores and Star Markets, James H. Henson at Jewel and Jo H. Armstrong at Star. Mr. Henson, 47, was Star's President for the past five years. He has also had many years of experience in Eisner and in Jewel Food Stores. Mr. Armstrong, 62, was President of Eisner in the 1960's and has had senior operating roles in several other Jewel companies. These men are highly experienced and mature executives and exceptionally talented leaders.

Manufacturing, which continues to play a major role in our Company's profitability and merchandising quality, is described in a special section beginning on Page 10. Total Jewel Companies manufacturing output increased 7% over the prior year.

Drug Store Results

Osco drug stores operating earnings increased 13% on a 15% sales increase in 1979. Both sales and earnings represent record achievements for Osco. Of 24 new stores opened, 10 were in common locations with one or another of our supermarket companies and 8 were in regional malls. As noted in prior reports, the 1978 sale of Turn*Style stores created the need for considerable overhead reduction. At the start of 1980 overhead charges are running at an annualized rate of 2.6% of Osco sales compared with 3.0% after the sale of the Turn*Style division.

Other Jewel Companies

Brigham's 95 ice cream and sandwich shops were 83% franchised at year-end. While Brigham's earnings results for the year were down from the record results of 1978, our confidence in the positive influence of franchising the entire Brigham's chain remains firm. The decline primarily relates to cost and sales pressures typical of the food service industry in 1979 and in part to the impact of some units not yet franchised.

The Direct Marketing Division's three businesses had mixed results. Earnings of the Jewel Home Shopping Service, now operating 1,133 home service routes, increased in 1979 only by reason of a gain on the sale of a warehouse. Park Corporation, DMD's manufacturing operation, had an excellent year with operating earnings increasing 70% over 1978's record results. At 1979 year end, we operated 100 Jewel T Discount Grocery Stores in eight states compared with 29 stores in four states at the prior year end. This rapid growth on a small base created heavy start-up expense, particularly related to entry in major new markets such as Atlanta, Dallas and Los Angeles. Jewel T stores experienced mixed sales results during this period of rapid expansion resulting in losses greater than planned. Jewel T losses amounted to $.24 per share for the year compared to $.06 per share in 1978. In 1980, close to 60 Jewel T stores will be added in existing markets, including Los Angeles, our newest market, where the first eight stores were opened on January 9, 1980. No new markets are planned for 1980.

It is projected that the Jewel T operation will lose money in the current year.

White Hen Pantry convenience stores had an outstanding year in 1979 with an operating earnings increase of 30% over 1978 on a 17% retail sales increase. 234 stores were operating at year-end, an increase of 18 during the year. White Hen franchisees also enjoyed a record year as their average franchise earnings increased to $35,000 from $31,000 in 1978. By any known measurements, White Hen Pantry is one of the best managed and best performing convenience store chains in the country.

Mass Feeding Corporation experienced good growth in the Fall of 1979 with outstanding success in bidding for school lunch business. Despite a relatively weak first half, earnings from operations during 1979 were up 72% on a 17% sales increase.

Continued Financial Strength

1979 capital expenditures of $76,000,000 (excluding capitalized leases and real estate affiliates) were $9,000,000 less than planned but $6,500,000 more than in 1978. For a variety of reasons, not all of the new retail locations included in the original plan

◀ *This "street-front" format in Chicago is a White Hen Pantry prototype for serving densely populated urban areas.*

were finalized. Our planned 1980 capital investment is $90,000,000. Our debt ratios remained relatively constant during 1979 despite severe inflationary pressures on working capital. No new equity financing is currently contemplated but our present plans include the probability of additional long-term borrowing in 1981.

Management and Director Changes

On December 17, 1979, the Board of Directors elected Weston R. Christopherson to the position of Chief Executive Officer and announced that he would be elected Chairman of the Board following the June 16, 1980 annual meeting. Pursuant to plans announced earlier, Donald S. Perkins, who will have completed 10 years as Chairman of the Board, preceded by five years as President of Jewel, will continue as Chairman of the Executive Committee and a Director after June 16. Richard G. Cline, who was elected Vice Chairman and a Director of Jewel at the December 17 Board of Directors meeting, is now the Company's Chief Operating Officer.

Helen LeBaron Hilton, former Dean of the School of Home Economics at Iowa State University, retired from the Board of Directors on January 2, 1980 in accordance with the retirement age provisions for Jewel directors. Dr. Hilton's professional expertise and her sensitivity to people contributed importantly to the well-being of our Company. We shall miss her wise counsel and gracious manner.

1980

As it marks a calendar change in decades, 1980 marks for Jewel a management transition, planned to assure that experienced and proven management talent will continue to be a hallmark of Jewel Companies. In the decade of the 1980's the need will continue for leadership which is alert to changing consumer needs and desires. We believe that this describes the officers of Jewel and its operating companies.

Our growth efforts in 1979 included an attempt to acquire a California-based drug chain. While the effort failed, it did result in a profit on our ownership of shares in that firm. The profit will be recorded in 1980.

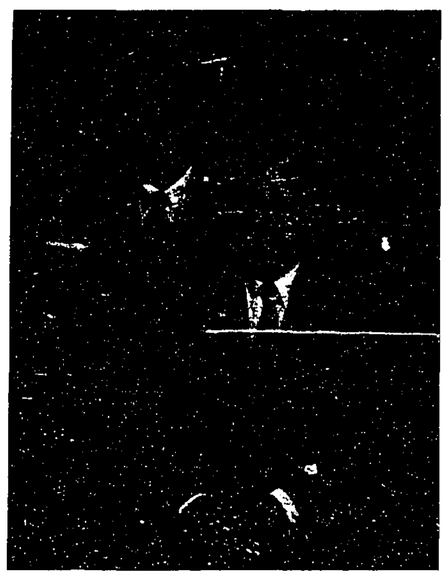
1980 will be a challenging year for all Jewel people. We will make further progress in the business plans which were described in the 1978 Annual Report and reviewed on Pages 4 and 5 of this Report. Special emphasis will again be given to the primary goal of improvement in return on shareholders' equity. All these plans are made in an environment of unprecedented inflationary pressures and financial uncertainties. Nevertheless, Jewel people enter 1980 with strong confidence in their ability to meet these challenges.

Our Thanks to Jewel People and Shareholders

This annual letter to shareholders gives us the opportunity to thank each Jewel person for the dedication to service that typifies each of our businesses. That dedication enhanced by the creativity and enthusiasm of Jewel people is the greatest asset of our Company. Too, this letter gives us the opportunity to thank Jewel customers and shareholders for their continuing support. To all we express our gratitude for the past and our optimism for the future.

Donald S. Perkins
Chairman

Weston R. Christopherson
President



Donald S. Perkins
Weston R. Christopherson

Richard G. Cline, newly-elected Vice Chairman and Chief Operating Officer, joined Jewel in 1963 as a management trainee. He served for a number of years with Jewel Food Stores and Osco Drug, Inc. and was Osco's President from 1970 until 1979 when he was named Senior Executive Vice President of the parent company.

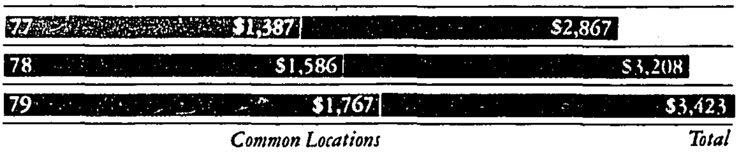
Progress Report

In the 1978 Annual Report, Jewel' s business plans for 1979-81 were described. In these pages we report in visual form on our progress toward the achievement of these goals.

Food/Drug

(Food and Drug Sales—in millions of dollars)

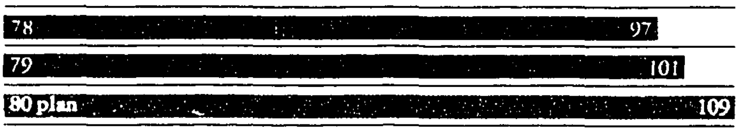
Increased emphasis on common location food and drug stores.



Drug Stores

(Units)

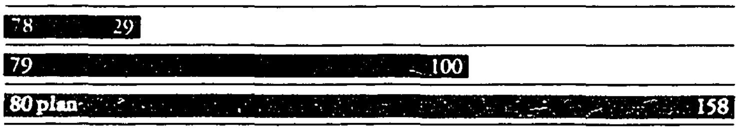
More solo drug stores in existing and new markets.



Jewel T

(Units)

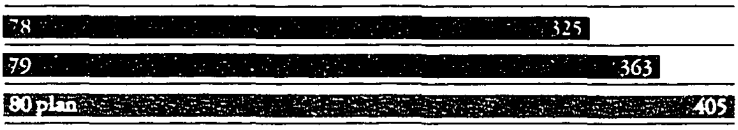
Expansion of the Jewel T Discount Grocery Store chain.



Franchising/Agency

(Franchise and Agency Units)

Expansion of franchising and agency operations.



Support Facilities

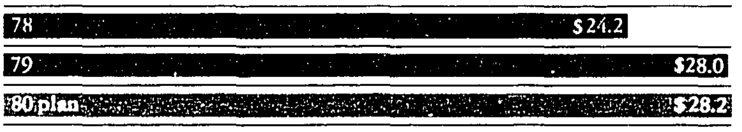
(Manufacturing and Distribution Investment—in millions of dollars)

Increased investment in manufacturing and distribution support facilities.

Facility Improvements

(Investment in Remodeling, etc.—in millions of dollars)

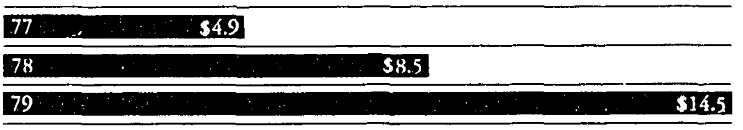
Continued remodeling, enlargement and upgrading of existing retail facilities.



Aurrera

(Equity in Aurrera Earnings—in millions of dollars)

Maintenance of our investment in Aurrera, S.A.



Return on Equity

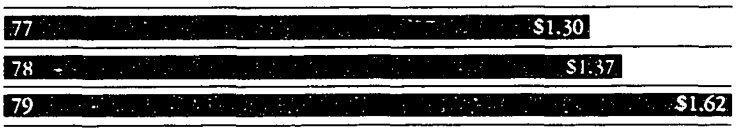
(Return on Shareholders Equity)

Progress toward a 15% return on shareholders equity.

Dividends

(Dividends Paid Per Share)

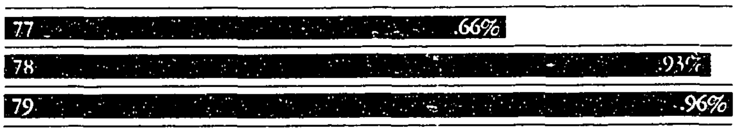
Increased dividends for our stockholders.



Return on Sales

(U S Earnings as % of sales)

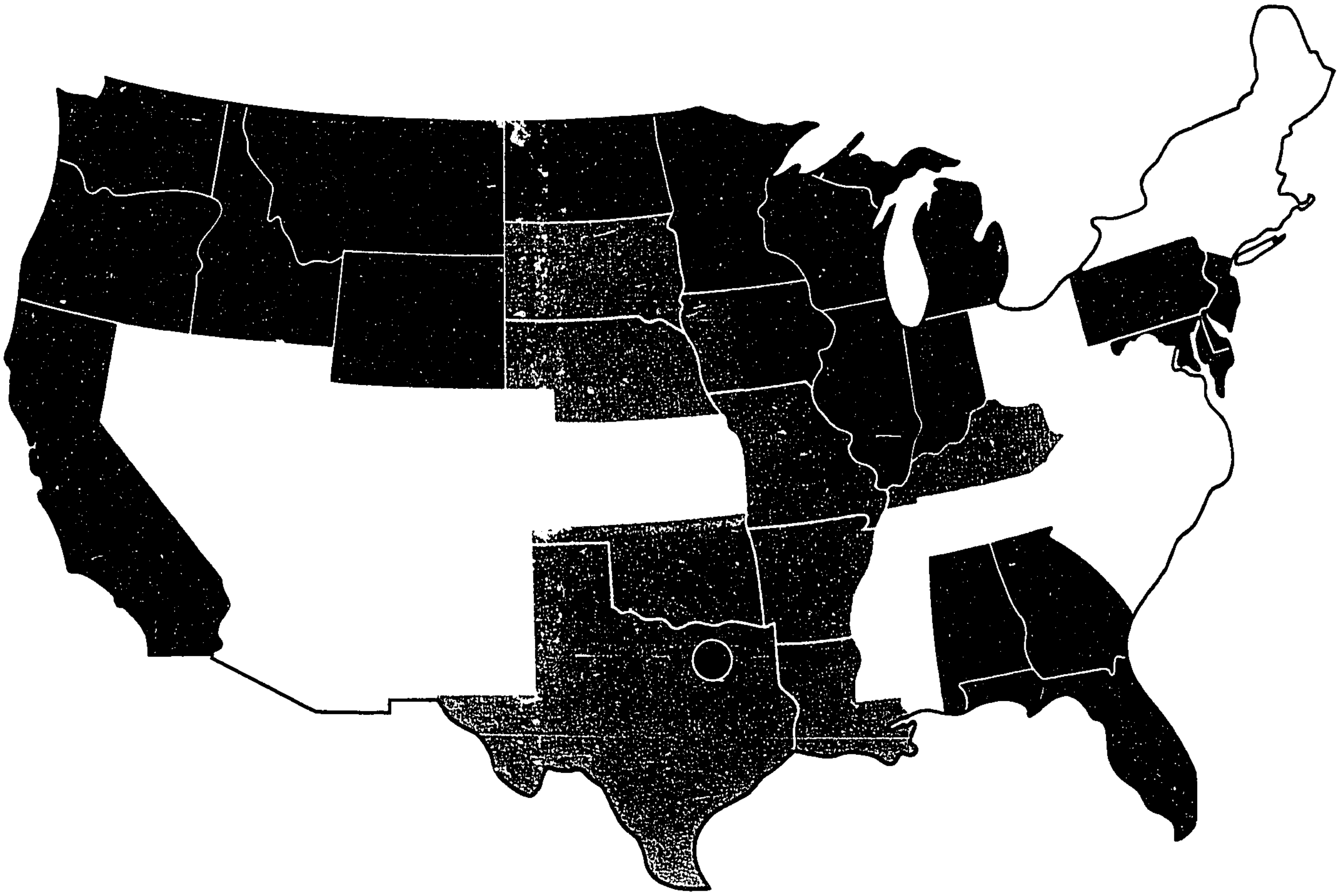
Net earnings of U.S. operations equal to 1% of sales.



Jewel Companies, Inc.

Food and Drug Store Locations:

- Buttrey/Osco (22 Buttrey, 29 Buttrey/Osco, 10 Osco)
- Eisner/Osco (14 Eisner, 18 Eisner/Osco, 17 Osco)
- Jewel/Osco (115 Jewel, 99 Jewel/Osco, 37 Osco)
- Jewel T Discount Grocery (100 stores)
- Osco (27 stores)
- Star/Osco (43 Star, 17 Star/Osco, 9 Osco)



Company		Number of Stores				Total	Affiliated
		Beginning of Year	Opened	Closed	End of Year	Sq. Ft. (in thousands)	Stores
Buttrey Food Stores	1979	48	3	0	51	1,301	
	1980 plan	51	2	0	53	1,355	
Eisner Food & Agency Stores	1979	32	0	0	32	767	58
	1980 plan	32	2	2	32	800	60
Jewel Food Stores	1979	223	3	12	214	6,694	
	1980 plan	214	9	5	218	6,996	
Jewel T Discount Grocery	1979	29	76	5	100	1,150	
	1980 plan	100	58	0	158	1,769	
Osco Drug	1979	254	24	15	263	4,644	
	1980 plan	263	28	7	284	5,143	
Star Market Company	1979	61	1	2	60	1,800	3
	1980 plan	60	2	4	58	1,769	6

Jewel Companies and Presidents

Brigham's
30 Mill Street
Arlington, Mass. 02174
Richard P Johnson

Buttrey Food Stores
601 Sixth Street, S.W.
Box 5008
Great Falls, Montana 59403
Philip R. Palm

Direct Marketing Division
Jewel Park
Barrington, Illinois 60010
Betty M. McFadden

Eisner Food & Agency Stores
301 East Wilbur Heights Road
Champaign, Illinois 61820
David L. Diana

Jewel Food Stores
1955 West North Avenue
Melrose Park, Illinois 60160
James H. Henson

Jewel Home Shopping Service
Jewel Park
Barrington, Illinois 60010
Lance Devereaux

Jewel T Discount Grocery
Jewel Park
Barrington, Illinois 60010
Herman T. Landon

Mass Feeding Corporation
First Federal Office Plaza
1699 East Woodfield Road
Schaumburg, Illinois 60193
Thomas F. Harwood

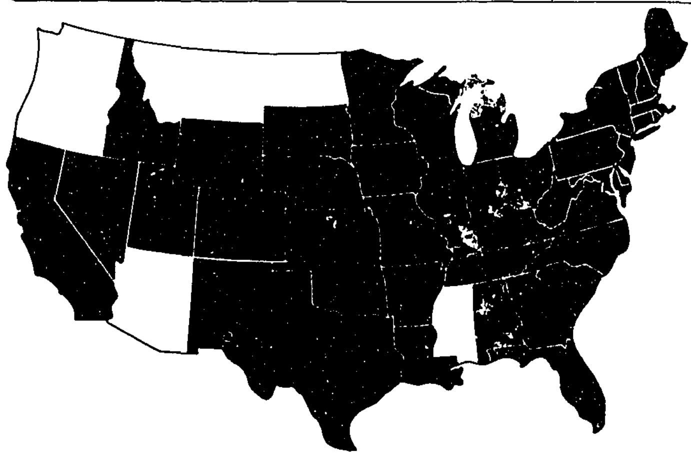
Osco Drug, Inc.
1818 Swift Drive
Oakbrook, Illinois 60521
Richard E. George

The Park Corporation
Jewel Park
Barrington, Illinois 60010
Betty M. McFadden

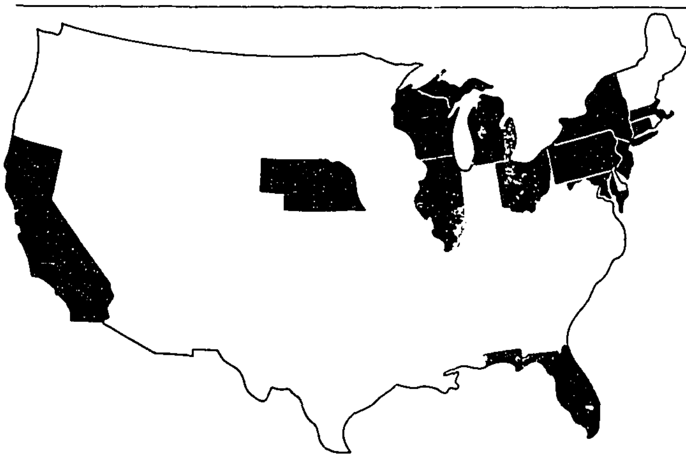
Star Market Company
625 Mt. Auburn Street
Cambridge, Mass 02138
Jo H. Armstrong

White Hen Pantry
666 Industrial Drive
Elmhurst, Illinois 60126
Robert G. Robertson

Franchise Businesses:
Brigham's/White Hen Pantry
White Hen Pantry



Jewel Home Shopping Service



Mass Feeding Corporation

Company		Number of Stores (Routes for Jewel Home Shopping Service) Beginning of Year	Opened	Closed	End of Year	Total Sq. Ft. (in thousands)	Meals (in thousands)
Brigham's	1979	92	5	2	95	277	
	1980 plan	95	8	0	103	293	
White Hen Pantry	1979	216	21	3	234	587	
	1980 plan	234	25	5	254	638	
Jewel Home Shopping Service	1979	1,210	0	77	1,133		
	1980 plan	1,133	0	55	1,078		
Mass Feeding Corporation	1979						48,926
	1980 plan						54,000

Field Buying

Larry Krueger, based in Fresno, California, is one of 11 JEBS Buyers. Here he inspects an orange grove in Yorba Linda, California.

As American consumers, we take food and other consumable products for granted. Each of us, even when the snow is two feet deep, expects to be able to go to our nearest supermarket and find fresh strawberries available for purchase. We want products from across the country and around the world, with no wait. We expect them to be available fresh, frozen or canned, raw or cooked, packaged or loose and convenient: the bread sliced, the milk pasteurized with vitamins added. We don't want to spend too much of our money for them.

The surprise is that all these wishes are fulfilled! For the smallest percentage of disposable income of any nation in the world, we get the most dependable supply of the greatest variety and highest quality food and consumable goods ever known. This is truly a Daily Miracle that U.S. consumers take for granted.

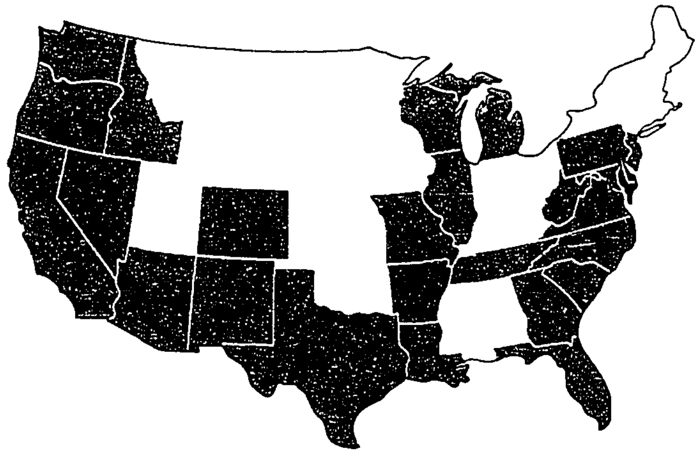
At Jewel we know how the Daily Miracle is achieved. It often begins many days, weeks or even months in advance. It involves many vital parts of a large, complex distribution system of which most consumers are unaware, and about which they are unconcerned. This system at Jewel involves field buyers, office buyers, computer experts, accountants, warehouse workers, truck drivers, manufacturing workers and personnel people. Over 10,000 of Jewel's 52,000 full and part time people, or almost one in five, work outside our stores to make the Daily Miracle happen.

Nowhere in Jewel is the seriousness with which we act as the consumer's buying agent more apparent than in our JEBS field buying activities. JEBS is named for Jewel, Eisner, Buttrey and Star, the four supermarket chains that quite literally enjoy the fruits of JEBS labor. The JEBS organization is small in number, 11, but very large in territory. Based in the major fruit and vegetable growing areas of Florida, Texas, Arizona, Washington and California, field buyers find, buy and transport the best possible fresh fruits and vegetables at the best possible price to Jewel customers. This buying group was conceived in 1970. Over two years were needed to staff it with produce experts who are also wise buyers.

Buyers are constantly on the move from one growing area to another as crops mature and weather changes, striving to establish good working relationships with reliable packers and shippers. A crop of asparagus that looks good in the field can be cut too close to the ground, or be badly packaged, causing spoilage or damage by the time the product reaches the store.

The knowledge that each buyer has of his territory, not only on a reputation basis but also on a short term "who has good product today" basis, enables him to support Jewel's role as the consumer's buying agent. Chances are that the Star lettuce in a salad in Boston was selected three or four days before in Florida or California by a JEBS buyer. Fresh lettuce in Boston in January at a reasonable price is one more example of the Daily Miracle.

The JEBS field buyers are one small, but important, part of a large buying network to procure frozen foods, pharmaceuticals, cat food, microwave ovens and the more than 25,000 other items that go into the Daily Miracle. This same organization also acquires the highest quality raw materials for Jewel's manufacturing and processing plants.



States where Jewel Field Buyers Purchase Fresh Fruits and Vegetables.


party pizza
ALL FABRIC
PARK
yellow
cake mix
Vanilla
CREAMY
COLE SLAW
73¢

Manufacturing and Processing

These 30 items represent a sampling of the range of products manufactured, processed or packaged in Jewel plants.

Jewel manufacturing has been a major contributor to Jewel product quality and variety and to earnings for many years. Jewel's plants and farms, its least known support activities, are really a business within a business. When all of Jewel's manufacturing output in each operating division is aggregated, the sales volume for 1979 totals $367,000,000.

Jewel Companies has approximately $73,000,000 of its total fixed assets, or 8%, devoted to production. It assigns 1,828 people to work on production lines, in quality control laboratories, on product development, in offices and other parts of this large business within a business.

Jewel Companies entered manufacturing not long after the turn of the century with coffee roasting and tea blending to support the home shopping business. An important consideration which led to Jewel's entry into several ventures was the lack of a supplier, or suppliers, who could meet Jewel's requirements for quality, cost and service on an ongoing and consistent basis. The Jewel manufacturing philosophy has continued to be one of entering new production activities in support of the needs of Jewel businesses, rather than to serve non-Jewel customers. However, over the years, some sales to non-Jewel customers have developed. In 1979 these sales represented 12% of Jewel's total manufacturing.

The diverse production facilities include three egg farms with over 1 million laying hens, a high quality and high volume photo processing plant, frozen preplated lunch plants and our original plant—for coffee roasting, grinding and packaging. Jewel products range from tea bags to ice cream to aspirin to frozen pizza to yogurt. Jewel brings unique products to the customer at the best value by doing its own processing. This ability is another important element in the food distribution system which provides the Daily Miracle at Jewel.

Manufacturing Facilities

Arkansas	*Pine Bluff*
Illinois	*Barrington*
	Champaign
	Chicago area (5)
	Donovan
	Elgin
	Loda
	Newark
Massachusetts	*Boston Area*
Pennsylvania	*Moosic*
Wisconsin	*Monticello*
	Richland Center


Jewel

Distribution

The vital links that bring together all the various products from around the world and across the U.S. are the distribution support teams.

The traffic experts route, schedule and control product flow from field, seaport, supplier or Jewel plant to warehouses. Transportation support moves trailers loaded with a store's grocery, frozen food, drug, produce and other needs.

The central points in this system are warehouses and consolidation centers around the United States. They receive products from many sources and in large quantities, often trailer or rail car loads. These products are stored and then, often through sophisticated computer selection systems, are assembled in response to each individual store's needs and loaded on a trailer or truck for delivery.

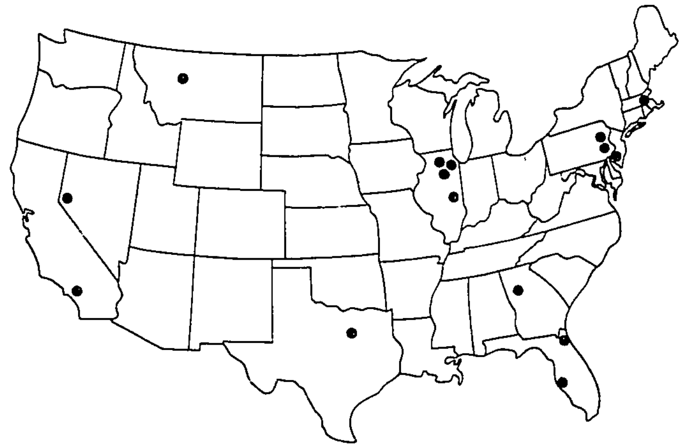
Some of Jewel's warehouses are special and unique like the four-story Hillfarm ice cream warehouse which stores 140,000 gallons of the world's best ice cream at −25°F. Others are all purpose and mammoth like the 16 acre dry grocery warehouse which provides over 12½ million cubic feet of storage under one roof. These facilities operate days, nights—whenever required to meet the needs of Jewel customers.

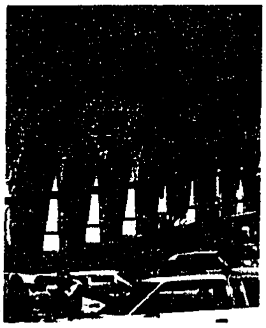
The Jewel people who support the stores meet the most difficult challenges. They handle a wide variety of product types ranging from small drug items to pallets of sugar, from delicate plants and flowers to tons of dog food, from brick hard ice cream to soft imported cheeses. Unseen by our customers, they also make the Daily Miracle possible.

Jewel's transportation system moves products day and night to its retail outlets from warehousing and distribution centers in 10 states.

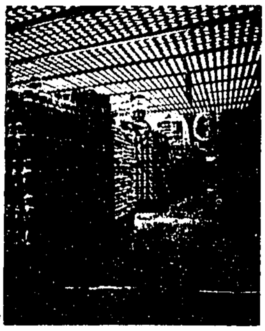
Distribution Centers and Warehouses

California	*Walnut*
Florida	*Jacksonville*
	Tampa
Georgia	*Atlanta*
Illinois	*Barrington*
	Champaign (2)
	Chicago area (5)
	Plainfield
Massachusetts	*Boston area (4)*
Montana	*Great Falls*
Nevada	*Sparks*
New Jersey	*Bridgeport*
Pennsylvania	*Fogelsville*
Texas	*Dallas*





a



b

c

d

Aurrera, S.A.

In 1979 Aurrera continued to grow with record sales and earnings. In its fiscal year ended July 31, 1979 Aurrera sales improved 34.1% and net earnings were up 61.1%. Net earnings were 5.35% of sales.

For the first five months of Aurrera's current fiscal year, from August through December, 1979, earnings in pesos exceeded the same period in the prior year by 65.8% on a 42.2% gain in sales.

The outstanding Aurrera growth record is reflected in the results for each of its operating businesses:

- Aurrera's first major move into Mexico's "interior" was consummated with the opening of two discount stores, one Suburbia apparel store and one Vips restaurant in Guadalajara.
- A total of three large new Suburbia apparel stores were added to the existing chain of five.

Following these additions, the Aurrera stores contain the following existing units:

Aurrera Discount Stores	50
Suburbia Apparel Stores	8
Vips Restaurants	37
El Porton Restaurants ...	3

Aurrera's greatest challenge continues to be the recruitment and development of competent and professional managers for the direction of its expanding business. Jewel is proud to have contributed in some measure to Aurrera's outstanding success in this effort.

Compound Growth for Fiscal Years Ended July 31, 1979	Sales		Net Earnings	
	Latest Year	Past Five Years	Latest Year	Past Five Years
Self Service Discount Stores	33.9%	32.9%	32.3%	38.8%
Restaurants	44.3	39.6	44.9	56.4
Fashion Apparel Stores	28.7	44.3	(5.0)	75.8
Consolidated	34.1	34.2	61.1	41.2

Highlights of Aurrera's 1979 included the following:

- A new line of generic food and general merchandise items introduced by Aurrera in 1978 continued to grow in popularity. The generic lines which now contain 62 grocery items and 24 apparel items have been enthusiastically received.
- The new restaurant format called El Porton, with presentation of Mexican food specialties, was extended successfully to two additional locations. Five additional units were added to the Vips fast service restaurant chain.

Plans for 1980 include the opening of 8 Vips and 4 El Porton restaurants, and 4 large Aurrera general mechandise and food stores.

Aurrera continued its payment of regular dividends, commenced in 1973, as follows:

Fiscal Year	Earnings Per Share* (pesos)	Dividends per Share Paid From Earnings: Amount* (pesos)	Dividends per Share Paid From Earnings: %
1972/73	.56	.17	31
1973/74	.69	.21	31
1974/75	.94	.47**	50
1975/76	1.65	.82	50
1976/77	1.72	.86	50
1977/78	2.42	1.21	50
1978/79	3.90	2.00	51

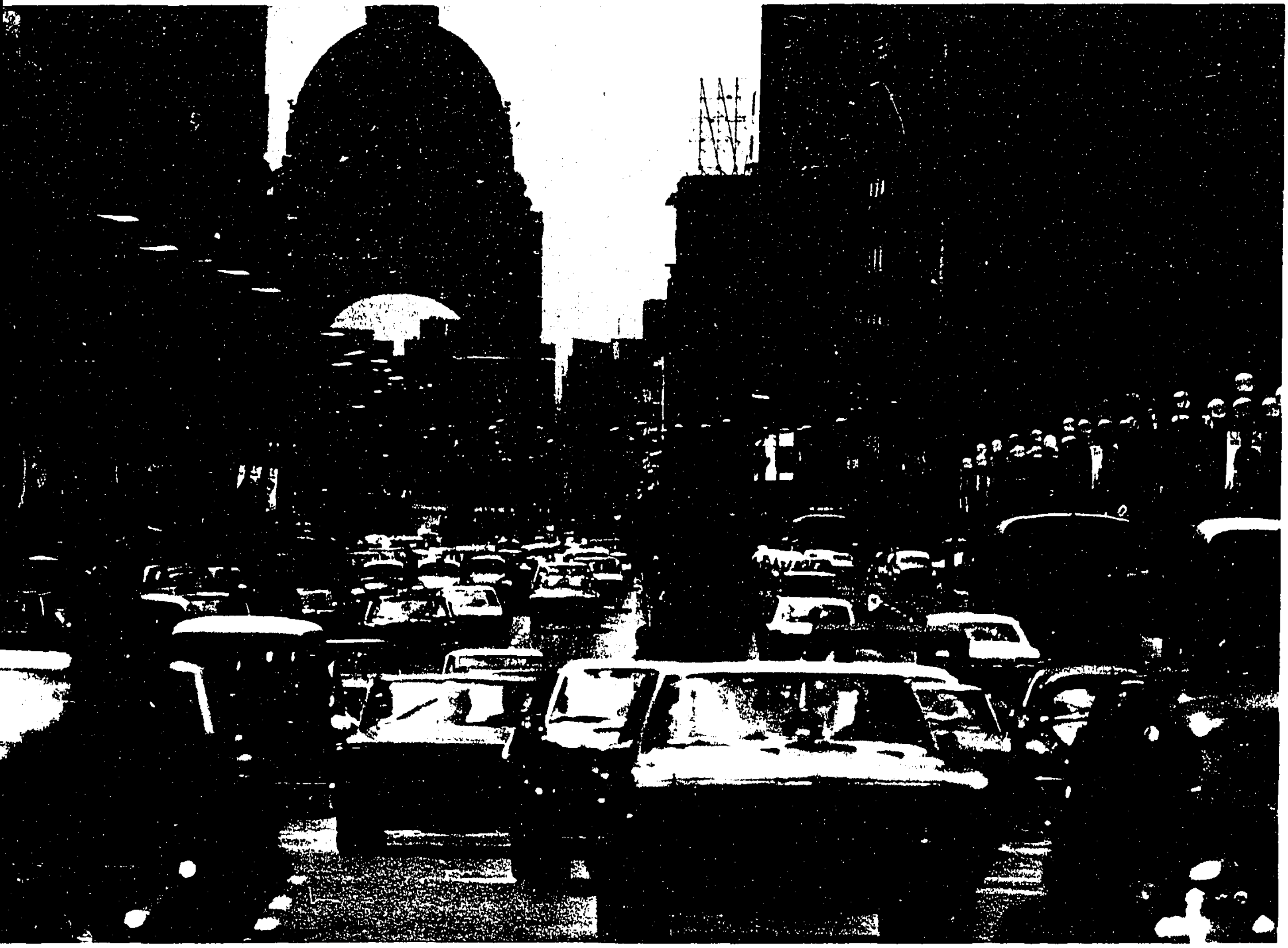
*Adjusted in all periods for stock split in July 1979 increasing outstanding shares to 180,000,000.
**Excludes special dividend of Ps. 99,990,000 declared in October 1975.

a) Exterior of the 64,000 sq. ft. Aurrera store in Cuajimalpa, in the Federal District.

b) A display of generic products at the new self-service discount store in Guadalajara.

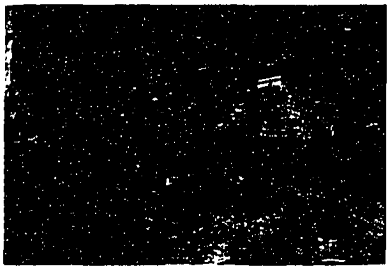
c) El Porton restaurant in Mexico City's Taxquena area.

d) This Suburbia fashion apparel store in Coapa, in the Federal District, was one of the three added in 1979.



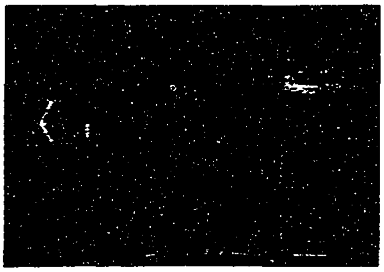
a

b



c

d



Mexico

Many elements came together in the 1970s to draw the attention of North Americans to Mexico, our great neighbor to the south.

Some of the highlights of Mexico today are:

- A population of almost 70,000,000, which is larger than France, Great Britain or West Germany.
- A fast rate of population growth, resulting in 50% being below 18 years of age.
- A great national pride in the country's heritage and traditions, most visibly represented in its many archeological splendors.
- A strong movement of population from country to city with roughly 60% now being centered in the urban areas.
- A capital city with a population of over 13,000,000 and with every prospect of soon becoming the largest city in the world. Its strong, emerging middle class provides the base of an outstanding market for modern, value-giving merchandising.

a) A busy street in downtown Mexico City.

b) An Aztec pyramid at Tenochtitlan.

c) The Library at the University of Mexico.

d) Popocatepetl volcano near Mexico City.

The most dramatic events of the 1970s involved the discovery of new and massive oil reserves placing Mexico among the top petroleum sources in the world.

Renewed encouragement has been given to investment and economic leadership by the private sector but subject always to high standards of social responsibility. Direct foreign private investment in Mexico is expected to be over $1.2 billion in 1980.

All of this has resulted in a new atmosphere of confidence and national pride.

Mexico and the United States enter the 1980s with outstanding opportunities to develop new mutual understandings and to shed the burdens of their sometimes troubled past in an atmosphere of equal partnership.

Jewel is proud that its partnership with its fellow Aurrera stockholders places it in the forefront of U.S. companies participating in the life and growth of this exciting country.

Management's Analysis of Increase in Earnings

1979 Compared to 1978

Total sales for the 52-week fiscal year ended February 2, 1980 increased 7.1% compared to the 53-week fiscal year ended February 3, 1979. Excluding the 53rd week in 1978 and the sales of the Company's Turn*Style division which was sold in June 1978, the sales increase in 1979 was 10.5%. Each of the Company's operating divisions contributed to the sales increase. Sales in all identical store units were 7% higher in 1979. The increase in 1979 includes an indeterminable effect of inflation.

Net earnings for 1979 increased $.95 per common share over 1978. An analysis of the major factors contributing to the increase follows:

	Increase (Decrease)
Operating earnings before unallocated expenses:	
Supermarkets	$.23
General merchandise stores	.23
Other operations	(.05)
Total	.41
Unallocated—net	(.11)
Operating earnings	.30
Losses on facility dispositions	.03
Net interest expense	(.14)
Effective income tax rate	.11
Earnings of U.S. companies	.30
Equity in net earnings of Aurrera, S.A.	.56
Decrease in common shares outstanding	.09
Net earnings per common share	$.95

Operating earnings of the Company's four supermarket divisions contributed an additional $.23 per share to 1979 net earnings. The increase includes $.11 per share from higher sales with the remaining improvement principally attributable to continuing improvements in inventory shrink losses and store level expenses in the Jewel Food Stores division.

General merchandise operating earnings contributed an additional $.23 per share to 1979 net earnings. The Osco drug stores achieved record sales and earnings which improved 1979 net earnings $.10 per share. The balance of the 1979 increase is principally due to 1978 results being depressed as a result of winding down operations in connection with the sale of Turn*Style in June 1978.

The $.05 per share decrease in operating earnings from the Company's other operations includes losses of approximately $.24 per share (as compared to $.06 per share in 1978) in the expansion program of Jewel T Discount Grocery stores. These additional losses were partially offset by capital gains of $.08 per share from the 1979 sale of a warehouse facility no longer needed and record operating results in the Company's White Hen Pantry convenience stores and Park Corporation's manufacturing operations.

Unallocated 1979 net earnings declined $.11 per share as 1978 included capital gains of $.12 per share from the sale of Aurrera stock in July 1978.

Increased net interest expense lowered net earnings $.14 per share. This reduction in net earnings is primarily the result of increased short-term borrowings at higher interest rates.

A lower effective income tax rate in 1979 increased net earnings $.11 per share. The decrease in the effective tax rate reflects a reduction in the federal statutory tax rate from 48% in 1978 to 46% in 1979 and higher tax credits of $.06 per share, partially offset by higher state income taxes.

Operations of Aurrera, S.A., Mexico's leading private sector retailer in which Jewel has a 41.7% interest, continued strong in 1979. Sales for the 12 months ended December 31, 1979 increased 40.3%. The resultant increases in operating results as well as improved margins and a lower effective Mexican income tax rate resulted in a $.56 per share increase in Jewel's equity in the earnings of Aurrera.

A decrease in the average number of common shares outstanding in 1979, as a result of the purchase of 557,600 outstanding common shares in September 1978, contributed $.09 per share to net earnings in 1979.

1978 Compared to 1977

The Company achieved sales and earnings records in 1978. Total sales for the 53-week fiscal year ended February 3, 1979 increased 7.3% over the 52-week fiscal year ended January 28, 1978. Excluding the sales of the Company's Turn*Style division which was sold in June 1978, the increase was 12.4% due primarily to a 10.8% sales increase in the four supermarket companies. Sales in all identical store units were higher by 10.7%. The increase in 1978 includes an indeterminable effect of inflation.

Net earnings for the year were $3.59 per share compared to 1977 earnings of $2.29 per share, an increase of 56.8% over 1977 and 15.8% over the previous year of 1976. The Company's 1978 fiscal year included 53 weeks versus 52 weeks in 1977.

An analysis of the major factors contributing to the $1.30 increase in net earnings per common share follows:

	Increase (Decrease)
Operating earnings before unallocated expenses:	
Supermarkets	$ .48
General merchandise stores	(.14)
Other operations	.13
Total	.47
Unallocated—net	.05
Operating earnings	.52
Losses on facility dispositions	.42
Net interest income	.06
Effective income tax rate	(.06)
Earnings of U.S. companies	.94
Equity in net earnings of Aurrera, S.A.	.32
Decrease in common shares outstanding	.04
Net earnings per common share	$1.30

Total operating earnings before unallocated expenses improved $.47 per share. Particular strength was reflected in all of the Company's supermarket chains, the combined operating earnings of which increased $.48 per share. The largest percentage increases were contributed by the Star Market and Eisner Food Store divisions. The operating earnings of Jewel Food Stores, the Company's largest unit, increased 22% over 1977.

General merchandise operating earnings declined $.14 per share for the year primarily because of losses incurred by the Company's Turn*Style self-service department stores prior to its sale in June 1978. Despite the erosion of margins resulting from aggressive sales promotions and new store openings, operating earnings from Osco's drug stores showed moderate improvement and contributed an additional $.02 per share for the year.

The $.13 per share increase in operating earnings from the Company's other operations includes $.09 per share from the manufacturing operations of Park Corporation as it achieved the highest earnings in its history.

Losses on facility dispositions in 1978 amounted to $.03 per share compared to $.45 per share in 1977. The losses in 1978 include a $900,000 pre-tax provision for the planned sale of the assets of the Company's Republic Lumber division; 1977 losses consisted principally of a pre-tax provision of $7,300,000 for the sale of the Company's Turn*Style division.

Higher interest income increased net earnings $.09 per share in 1978 as the result of increased short-term investments. Additional interest expense of the Company's affiliated real estate corporations relating to new store financings lowered net earnings in 1978 by $.03 per share.

A higher effective income tax rate, primarily the result of lower investment tax credits, decreased net earnings $.06 per share in 1978. Investment tax credits were reduced in 1977 because of recapture provisions relating to the sale of Turn*Style which were considered in the earnings per share impact of the Turn*Style disposition. Excluding the 1977 recapture, investment tax credits were less in 1978 as the result of a reduction in qualifying equipment expenditures.

Operating results of Aurrera, S.A., Mexico's leading retailer in which the Company has a 41.7% interest, reached a record high and Jewel's equity in Aurrera's net earnings contributed an additional $.32 per share to 1978 net earnings.

A decrease in the average number of common shares outstanding for the year, as a result of the purchase of 557,600 outstanding common shares for the treasury in 1978, contributed $.04 per share to net earnings in 1978.

Summary of Significant Accounting Policies

Principles Applied in Consolidation

The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations. All significant intercompany transactions are eliminated.

Inventories

Inventories are valued at the lower of cost or market, with cost being determined on a first-in, first-out or weighted average basis.

Investment in Aurrera, S.A.

The Company's investment in Aurrera, S.A. (Mexico), 41.7% owned as of February 2, 1980 and February 3, 1979, is carried at cost plus equity in undistributed earnings since acquisition. The excess of cost over acquired net assets is not being amortized because there has been no diminution in value.

Land, Buildings and Equipment

Land, buildings and equipment are stated at cost and include certain assets acquired through the use of long-term lease obligations. Depreciation is computed on the straight-line method for financial statement purposes and on accelerated methods for tax purposes. Leasehold improvements and capital leases are amortized over the shorter of estimated physical life or the term of the lease. Useful lives average 32 years for buildings, 15 years for leasehold improvements, 10 years for equipment and 3-6 years for transportation equipment.

The cost of land, buildings and equipment is eliminated from the accounts at the time assets are sold or retired. Differences between net book value and proceeds on normal equipment dispositions are recorded in the accumulated depreciation account. Gains and losses on the disposition of land and buildings are reflected in the statement of earnings.

The costs of maintenance and repairs are charged against earnings as incurred while major enlargements, remodelings or improvements are capitalized and depreciated over the remaining useful lives of the properties.

Income Taxes

The Company recognizes investment tax credits as a reduction of federal income tax expense in the year in which the related assets are placed in service.

Other Deferred Liabilities

Costs associated with the Company's contingent compensation plans and self-insurance program are charged against current earnings. The portion of such costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

Pre-opening Costs

Pre-opening costs are charged to expense as incurred.

Profit Sharing and Retirement Costs

A majority of the Company's employees who meet service requirements are covered by profit sharing plans under which the Company makes annual contributions, determined by a formula related to earnings, to provide retirement benefits. These funds are held in trust apart from Company funds. Retirement benefits are based on each participant's share of the trust funds. There are no unfunded past service liabilities under these plans. The Company also makes payments to jointly administered pension plans as required by collective bargaining agreements covering some employees.

Statements of Earnings
Jewel Companies, Inc.

(In thousands except per share data)

	52 Weeks Ended Feb. 2, 1980	53 Weeks Ended Feb. 3, 1979
Sales	$3,764,266	$3,516,352
Costs of Doing Business:		
Cost of goods sold	2,979,185	2,768,656
Selling, general and administrative expenses	701,929	671,534
	3,681,114	3,440,190
Operating Earnings	83,152	76,162
Losses on Facility Dispositions		(712)
Interest Income	2,375	2,945
Interest Expense:		
Jewel Companies, Inc.	(15,259)	(12,399)
Real estate affiliates	(10,881)	(11,133)
Earnings of U.S. Companies Before Income Taxes	59,387	54,863
Income Taxes	23,244	22,197
Earnings of U.S. Companies	36,143	32,666
Equity in Net Earnings of Aurrera, S.A.	14,543	8,476
Net Earnings	$ 50,686	$ 41,142
Earnings Per Average Common Share Outstanding:		
Earnings of U.S. companies	$ 3.24	$ 2.85
Equity in net earnings of Aurrera, S.A.	1.30	.74
Net earnings	$ 4.54	$ 3.59

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Statements of Financial Position
Jewel Companies, Inc.

(In thousands except share data)

	Feb. 2, 1980	Feb. 3, 1979
Assets		
Current Assets:		
Cash	$ 30,768	$ 22,425
Short-term investments	10,760	43,223
Accounts receivable	46,743	43,451
Inventories	304,488	271,904
Prepaid expenses and other	17,569	11,435
Total current assets	410,328	392,438
Investment in Aurrera, S.A.	58,468	48,746
Land, Buildings and Equipment, net:		
Jewel Companies, Inc.	361,226	333,942
Real estate affiliates	175,452	177,695
Total land, buildings and equipment	536,678	511,637
Other Assets	6,893	5,317
	$1,012,367	$958,138
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 129,448	$128,013
Payrolls and other accrued expenses	130,340	130,941
Income taxes payable	5,042	4,668
Current maturities of long-term debt:		
Jewel Companies, Inc.	6,957	6,944
Real estate affiliates	7,535	7,294
Total current liabilities	279,322	277,860
Long-Term Debt, less current maturities:		
Jewel Companies, Inc.	159,624	142,195
Real estate affiliates	123,450	126,357
Deferred Income Taxes	50,141	47,216
Other Deferred Liabilities	22,195	19,682
Shareholders' Equity:		
Preferred stock—3¾% cumulative $100 par value—authorized and issued 16,500 shares at February 2, 1980	1,650	1,650
Common stock—$1 par value—authorized 25,000,000 shares, issued 11,678,339 shares at February 2, 1980	86,449	86,644
Retained earnings	303,346	271,458
Treasury stock, at cost	(13,810)	(14,924)
Total shareholders' equity	377,635	344,828
	$1,012,367	$958,138

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Statements of Changes in Financial Position

Jewel Companies, Inc.

	52 Weeks Ended Feb. 2, 1980	53 Weeks Ended Feb. 3, 1979
	(In thousands)	
Source of Funds—		
From operations:		
Net earnings	$ 50,686	$ 41,142
Charges and (credits) not affecting funds:		
Depreciation and amortization	56,663	53,692
Deferred taxes and other deferred liabilities	5,438	4,080
Equity in net earnings of Aurrera, S.A. in excess of dividends received	(9,364)	(5,344)
	103,423	93,570
From financing:		
Issuance of stock	1,217	1,780
Long-term debt:		
Jewel Companies, Inc.	25,337	1,517
Real estate affiliates	5,065	8,050
Disposals of land, buildings and equipment	6,211	5,249
Proceeds from sale of Turn*Style assets, net of $16,432 inventory sold		11,732
	$141,253	$121,898
Use of Funds—		
Dividends to shareholders	$ 18,798	$ 16,025
New land, buildings and equipment:		
Jewel Companies, Inc.	80,195	71,021
Real estate affiliates	7,720	11,301
Acquisition of treasury stock	298	15,016
Repayment of long-term debt:		
Jewel Companies, Inc.	7,908	6,958
Real estate affiliates	7,972	8,204
Other	1,934	(2,706)
Increase (decrease) in working capital	16,428	(3,921)
	$141,253	$121,898
Change in Working Capital—		
Increase (decrease) in current assets:		
Cash	$ 8,343	$ (4,468)
Short-term investments	(32,463)	10,375
Accounts receivable	3,292	9,320
Inventories	32,584	14,469
Prepaid expenses and other	6,134	(1)
	17,890	29,695
Increase (decrease) in current liabilities:		
Accounts payable	1,435	18,590
Payrolls and other accrued expenses	(601)	15,374
Income taxes payable	374	143
Current maturities of long-term debt	254	(491)
	1,462	33,616
Increase (decrease) in working capital	$ 16,428	$ (3,921)

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Statements of Changes in Shareholders' Equity

Jewel Companies, Inc.

(Dollars in thousands)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Treasury Stock
Balance at January 29, 1978	$1,650	11,600,836	$85,150	$246,341	$ (194)
Common stock issued:					
Employee stock purchase plan		10,149	205		
Stock option plan		53,000	974		
Dividend reinvestment plan		11,451	239		
Stock acquired for treasury:					
Common stock (557,600 shares)					(14,933)
Preferred stock (845 shares)					(83)
Treasury stock issued:					
Employee stock purchase plan (6,150 common shares)			(41)		165
Stock option plan (4,500 common shares)			(36)		121
Income tax benefit attributable to stock options			153		
Cash dividends declared:					
Preferred stock—$3.75 per share				(47)	
Common stock—$1.405 per share				(15,978)	
Net earnings				41,142	
Balance at February 3, 1979	1,650	11,675,436	86,644	271,458	(14,924)
Common stock issued for dividend reinvestment plan		2,903	67		
Stock acquired for treasury (3,800 preferred shares)					(298)
Treasury stock issued:					
Employee stock purchase plan (15,508 common shares)			(104)		415
Stock option plan (28,750 common shares)			(214)		770
Dividend reinvestment plan (8,456 common shares)			(15)		227
Income tax benefit attributable to stock options			71		
Cash dividends declared:					
Preferred stock—$3.75 per share				(40)	
Common stock—$1.68 per share				(18,758)	
Net earnings				50,686	
Balance at February 2, 1980	$1,650	11,678,339	$86,449	$303,346	$(13,810)

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Management's Responsibility for Financial Reporting

Management is responsible for the preparation of the Company's consolidated financial statements, including the related notes. The statements have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances, and necessarily include some amounts that are based on management's best estimates and judgments.

The Company maintains a system of internal accounting controls designed to provide reasonable assurance at a reasonable cost that Company assets are adequately protected, transactions are executed in accordance with management's authorization and financial records are reliable as a basis for preparation of financial statements. The system of controls includes careful selection and training of financial management personnel, delegation of authority and division of responsibility, dissemination of formal accounting and business policies, and an internal audit program to monitor the effectiveness of the control system. While there are limits inherent in all systems of internal accounting control based on the recognition that the cost of such systems should not exceed the benefits to be derived, management believes the Company's system provides this appropriate balance.

The Company has distributed to key employees its policies for conducting business affairs in a lawful and ethical manner. Management believes that the policies and procedures provide reasonable assurance that its operations are transacted in conformity with the law and consistent with high ethical standards. At regular times during the year, the Company's internal and external auditors meet privately with the Chairman of the Board and the President to review their audit work, the Company's internal controls and financial reporting matters.

The Company's financial statements have been examined by Touche Ross & Co., independent certified public accountants. Their examination was made in accordance with generally accepted auditing standards and included a review of the internal accounting control systems.

The Board of Directors, acting through its Audit Committee comprised solely of outside directors, oversees the fulfillment by management of its responsibilities in the preparation of financial statements and financial control of operations. The Audit Committee recommends, subject to Board of Directors approval, the selection of the Company's independent public accountants. In 1979, the Committee met four times and reviewed the scope, timing and cost of the Company's internal and external audit programs as well as the results of audit examinations completed by the Company's internal and external auditors. The Company's independent public accountants and internal audit department have full and free access to the Audit Committee.

D. S. Perkins,
Chairman,
Board of Directors

L. Howe,
Executive Vice President,
Finance and Law

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors,
Jewel Companies, Inc.

We have examined the consolidated statements of financial position of Jewel Companies, Inc. as of February 2, 1980 and February 3, 1979 and the related statements of earnings, shareholders' equity and changes in financial position for the fifty-two and fifty-three week periods then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of Aurrera, S.A., a Mexican company in which Jewel had a 41.7% interest at February 2, 1980. The consolidated financial statements of Aurrera, S.A. for its fiscal years ended July 31, 1979 and 1978 were examined by other independent auditors whose unqualified report thereon has been furnished to us.

In our opinion, which as to amounts with respect to Aurrera, S.A. for its fiscal years ended July 31, 1979 and 1978 is based on the report of other independent auditors described above, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. as of February 2, 1980 and February 3, 1979, and the results of its operations and the changes in its financial position for the fifty-two and fifty-three week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Chicago, Illinois
March 22, 1980

Land, Buildings and Equipment

The Company's investment in land, buildings and equipment consists of the following:

(In thousands)

	February 2, 1980		February 3, 1979	
	Jewel Cos., Inc.	Real Estate Affiliates	Jewel Cos., Inc.	Real Estate Affiliates
Buildings	$ 54,236	$163,478	$ 51,820	$160,526
Less allowance for depreciation	22,181	42,074	21,346	37,751
	32,055	121,404	30,474	122,775
Equipment and leasehold improvements	551,524		492,855	
Less allowance for depreciation and amortization	275,815		240,276	
	275,709		252,579	
Leased assets under capital leases	52,121		50,928	
Less allowance for amortization	19,772		18,890	
	32,349		32,038	
Land	21,113	54,048	18,851	54,920
	$361,226	$175,452	$333,942	$177,695

Short-Term and Long-Term Debt

Debt shown in the statements of financial position consists of the following:

(In thousands)

	Feb. 2, 1980	Feb. 3, 1979
Jewel Companies, Inc.:		
Commercial Paper, 13.17% average rate, supported by revolving credit agreement	$ 21,284	$ —
Commercial Banks:		
4.50%, due in annual installments of $1,250 through 1987	10,000	11,250
$50,000 Revolving Credit Agreement	—	—
Insurance Companies:		
6.875%, due in annual installments of $1,500 through 1993	21,000	22,500
7.875%, due in annual installments of $1,500 through 1994	22,500	24,000
8.25%, due in semi-annual installments of $1,500 from 1983 through 1997 with the balance due in 1997	50,000	50,000
Capital Lease Obligations, 9.39% and 9.28% average rate, due through 2000	39,998	39,268
All Other, 6.12% and 6.01% average rate, due through 1997	1,799	2,121
Total debt	$166,581	$149,139
Classified as follows:		
Current maturities	$ 6,957	$ 6,944
Long-term debt	159,624	142,195
Total debt	$166,581	$149,139
Real estate affiliates, mortgages, 8.44% and 8.37% average rate, due through 2005:		
Current maturities	$ 7,535	$ 7,294
Long-term debt	123,450	126,357
Total debt	$130,985	$133,651

Long-term debt at February 2, 1980 matures as follows:

(In thousands)

	Jewel Cos., Inc.	Real Estate Affiliates
1981	$ 6,974	$ 7,646
1982	6,804	7,805
1983	9,556	7,496
1984	9,606	7,379
Thereafter	126,684	93,124
	$159,624	$123,450

On January 25, 1980, the Company entered into a $50,000,000 revolving credit term loan agreement with three of its principal banks. The agreement provides for a commitment fee of ½% per annum on the daily unused portion and interest at 105% of the prevailing prime rate on any borrowings until December 31, 1983. On or before December 31, 1983, the Company may convert all, or any part of, the outstanding balance into a term loan payable in twelve equal quarterly installments with interest at 108% of the prime rate. On February 2, 1980, no borrowings were outstanding under this agreement; however, $21,284,000 of outstanding commercial paper was classified as long-term debt based on the Company's expectation that short-term borrowings averaging in excess of this amount will be outstanding during the ensuing year in the form of either commercial paper or notes under the revolving credit agreement.

Lines of credit are maintained with commercial banks ($56,500,000 at February 2, 1980) to ensure the availability of adequate funds to meet seasonal requirements. Most of the bank lines are supported by cash balances which are largely generated from the normal time lag in presentation of Company checks for payment. The arrangements with the banks are informal in nature and do not restrict the availability of such supporting funds in meeting the Company's daily cash requirements. A small portion of the bank lines are supported by the payment of fees in lieu of balances.

The maximum amount of short-term borrowings outstanding during 1979 was $66,450,000 and averaged $28,950,000 on a daily basis for the 45 weeks during which these borrowings were outstanding. The average interest rate on these borrowings was 12.23%.

The Company's loan agreements provide restrictions as to the maintenance of working capital (as defined) and payment of cash dividends on common stock. As of February 2, 1980, working capital was $42,000,000 in excess of minimum requirements and retained earnings not restricted for payment of cash dividends were $54,000,000.

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc. but is secured by the assignment of lease agreements between Jewel and the affiliates and first liens against real properties having a book value of approximately $175,000,000 at February 2, 1980, as compared to $178,000,000 at February 3, 1979. The debt will be fully paid during the fixed term of each lease, generally 20 years.

Income Taxes

The provision for income taxes consists of the following:

	1979	1978
	(In thousands)	
Federal		
Current	$21,291	$21,795
Deferred	2,865	3,054
Tax credits	(6,400)	(5,700)
	17,756	19,149
State and Local		
Current	5,188	2,753
Deferred	300	295
	5,488	3,048
	$23,244	$22,197

Deferred income taxes result from timing differences in the recognition of certain income and expense items for tax and financial statement purposes. The provision for deferred federal income taxes consists of the following:

	1979	1978
	(In thousands)	
Depreciation	$ 4,588	$ 3,316
Losses on facility dispositions	644	2,486
Self-insured claims	(727)	(1,232)
Other	(1,640)	(1,516)
	$ 2,865	$ 3,054

A reconciliation of the federal statutory tax rate with the effective tax rate follows:

	1979	1978
Statutory tax rate	46.0%	47.8%
State income taxes, net of federal income tax benefit	4.0	2.5
Tax credits	(8.7)	(9.0)
Other	(.9)	(.2)
Effective tax rate on U.S. earnings	40.4	41.1
Effect of foreign earnings	(9.0)	(6.1)
Effective tax rate	31.4%	35.0%

No provision has been made for U.S. income taxes on foreign earnings because any income tax on dividends received from Aurrera, S.A. would be substantially offset by foreign tax credits.

The Internal Revenue Service has completed its examination of the federal income tax returns of the Company and its subsidiaries for fiscal years 1973 through 1975 except for a limited number of unresolved issues which are not material.

In addition, an examination of the federal income tax returns of the Company and its subsidiaries for fiscal years 1976 and 1977 is in process. While the outcome of this examination is not determinable at this time, in the opinion of management, income tax reserves are adequate for all years for which the Company's liability has not been finally resolved.

Capital Stock

At February 2, 1980, there were 1,131,299 shares of common stock reserved of which 874,629 were for Stock Options, 196,235 were for the Employee Stock Purchase Plan and 60,435 were for the Automatic Dividend Reinvestment and Stock Purchase Plan.

The following summary shows the changes in stock options:

	1979	1978
Options outstanding, beginning of year	700,650	743,250
Granted	253,500	182,000
Exercised	(28,750)	(57,500)
Expired	(57,250)	(167,100)
Options outstanding, end of year	868,150	700,650

	Feb. 2, 1980	Feb. 3, 1979
Options exercisable	615,150	518,650
Shares available for grant	6,479	202,729

Outstanding options were granted at prices ranging from $16.875 to $26.875 per share, the fair market value on the date of grant. Non-qualified stock options become exercisable one year from the date of grant and expire in ten years.

Under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan, shareholders of record may purchase additional shares of common stock by reinvesting dividends and making optional cash investments without payment of any brokerage commission or service charge.

Treasury stock consists of 494,236 shares of common stock (cost $13,235,000) and 7,814 shares of preferred stock (cost $575,000). The preferred shares were acquired to meet the sinking fund provision of the issue, which requires full retirement by 1985. Sinking fund requirements are satisfied through 1982.

Lease Commitments

The Company leases certain of its retail and other locations under firm-term lease arrangements ranging from 5 to 25 years (principally 15 years for retail locations), plus various renewal options. In addition, the Company has an insignificant number of personal property leases (primarily transportation, warehouse handling and data processing equipment) expiring at various dates during the next four years.

As of February 2, 1980 minimum rentals on all non-cancellable leases for real properties under operating leases are as follows:

(In thousands)

Fiscal Year	Minimum Payments	Sublease Income	Net
1980	$ 31,201	$ 4,301	$ 26,900
1981	29,776	3,989	25,787
1982	27,713	3,763	23,950
1983	25,497	3,521	21,976
1984	22,562	3,235	19,327
Thereafter	135,623	21,175	114,448
Total minimum rent expense	$272,372	$39,984	$232,388

Rentals for leased real properties for fiscal 1979 and 1978 were as follows:

(In thousands)

	1979	1978
Minimum rentals	$29,457	$26,036
Contingent rentals (based on sales)	5,741	4,576
Sublease income	(4,526)	(3,775)
	$30,672	$26,837

Business Segments

The Company is a diversified retailer engaged primarily in the retail sale of food and general merchandise. The Company is engaged in the supermarket business under the Buttrey, Eisner, Jewel and Star trade names and in the general merchandise business under the Osco Drug trade name. Other operations include White Hen Pantry (convenience stores), Brigham's (ice cream, candy and sandwich stores), Mass Feeding Corporation (school lunch programs) and the Direct Marketing Division (home shopping service, manufacturing operations and limited-line discount grocery stores).

Operating earnings are total sales less operating expenses. In computing operating earnings, none of the following items have been added or deducted: unallocated expenses (which consist principally of general corporate expenses and miscellaneous income), losses on facility dispositions, interest income, interest expense, income taxes and equity in Aurrera, S.A.

Identifiable assets are those assets associated with a particular segment either by direct use or by allocation when used by two or more segments. Unallocated assets include short-term investments and certain land, buildings and equipment.

Information concerning the Company's sales and operating earnings by business segment is presented in the Five Year Review on page 32; a summary of identifiable assets, capital expenditures and depreciation expense for fiscal 1979 and 1978 follows:

	(In thousands)	
	1979	1978
Identifiable Assets		
Supermarkets	$ 589,610	$550,463
General merchandise	200,171	185,521
Other operations	90,903	66,380
Investment in Aurrera, S.A.	58,468	48,745
Unallocated	73,215	107,029
Total identifiable assets	$1,012,367	$958,138
Capital Expenditures		
Supermarkets	$ 53,571	$ 57,300
General merchandise	14,641	12,402
Other operations	15,362	5,802
Unallocated	4,341	6,818
Total capital expenditures	$ 87,915	$ 82,322
Depreciation Expense		
Supermarkets	$ 38,516	$ 36,219
General merchandise	7,579	9,063
Other operations	5,154	4,213
Unallocated	5,414	4,197
Total depreciation expense	$ 56,663	$ 53,692

Losses on Facility Dispositions

Facility disposition losses in 1978 include a $900,000 provision for the sale of the assets of the Company's Republic Lumber Division, which was sold in April 1979, and a $188,000 reduction in the 1977 provision for the sale of the Company's Turn*Style Division, which was completed in June 1978.

Contingent Liabilities—Litigation

In addition to claims and lawsuits arising in the normal course of the Company's business, as of February 2, 1980, there were various actions pending against the Company for substantial damages under antitrust laws.

These include fourteen antitrust actions under federal law filed by certain cattle producers and feeders in 1975, 1976 and 1977 against Jewel and others alleging price fixing in the purchase and sale of beef. Plaintiffs in one of these seek to maintain a class action. All of these actions have been consolidated for pre-trial and discovery purposes in the U.S. District Court in Dallas, Texas. In December, 1977, the Court dismissed seven of these actions on the basis of the U.S. Supreme Court's decision in the Illinois Brick case that only direct sellers and purchasers could recover damages under federal antitrust laws; plaintiffs filed appeals in six of these seven cases and a suit similar to the seventh was filed in California under state antitrust laws. In August, 1979, the U.S. Court of Appeals for the Fifth Circuit reversed the dismissals and returned the six cases to the District Court for further evidentiary proceedings; also, Congress is considering legislation which would overturn the Illinois Brick decision, including proposals designed to reinstate actions dismissed on the basis of that decision. Complaints in the remaining seven actions, filed in 1977, include some allegations which were not made in earlier cases. Since the proceedings are in their preliminary stages and in view of the complexity of the factual, economic and legal theories involved and the uncertainties inherent in litigation, management cannot predict their ultimate outcome. Management believes, however, that it has good and meritorious defenses to each action.

Management is of the opinion with respect to all claims and lawsuits that any resulting liability will not materially affect the Company's consolidated earnings or financial position.

Costs and Expenses

Set forth below is a comparative summary of significant costs and expenses:

	(In thousands)	
	1979	1978
Depreciation and Amortization		
Jewel Companies, Inc.		
Buildings	$ 1,574	$ 1,504
Equipment and leasehold improvements	46,773	44,231
Capital leases	2,975	2,903
	51,322	48,638
Real estate affiliates		
Buildings	5,341	5,054
	$56,663	$53,692
Taxes, Other than Income		
Payroll	$42,809	$37,899
Property	13,727	13,963
Other	1,832	2,049
	$58,368	$53,911
Rents		
Real estate	$30,672	$26,837
Personal property	5,917	4,174
	$36,589	$31,011
Advertising	$43,113	$43,471
Retirement Benefit Plans		
Profit sharing plan	$14,468	$14,277
Contingent compensation	2,254	2,325
Industry pension plans and other	5,364	5,151
	$22,086	$21,753

Replacement Cost Data *(Unaudited)*

As required by the Securities and Exchange Commission, the Company's 1979 Annual Report on Form 10-K will contain additional supplemental information regarding the impact of replacement cost (which differs from the constant dollar information presented on page 31) on the Company's inventories, properties, cost of sales and depreciation expense.

Quarterly Data *(Unaudited)*

(In thousands except per share figures)

Quarter	Total Sales	Gross Profit	Net Earnings Total	Net Earnings Per Share
1979				
First (12 weeks) . . .	$ 817,174	$165,858	$ 9,102	$ .82
Second (16 weeks) .	1,131,456	238,860	14,099	1.26
Third (12 weeks) . .	859,111	175,888	7,959	.71
Fourth (12 weeks) .	956,525	204,475	19,526	1.75
Total year	$3,764,266	$785,081	$50,686	$4.54
1978				
First (12 weeks) . . .	$ 779,133	$164,187	$ 7,156	$ .62
Second (16 weeks) .	1,015,383	223,990	10,823	.93
Third (12 weeks) . .	769,216	151,099	6,519	.57
Fourth (13 weeks) .	952,620	208,420	16,644	1.47
Total year	$3,516,352	$747,696	$41,142	$3.59

Common Stock Data *(Unaudited)*

	Price Range*				Dividends Paid	
	1979		1978			
Quarter	High	Low	High	Low	1979	1978
First	$25	$20	$20⅛	$17½	$ .36	$ .325
Second . .	27	22⅜	23¾	18⅛	.42	.325
Third	26⅝	22½	26	20¼	.42	.360
Fourth . . .	30⅛	22⅞	21¾	19	.42	.360
Year	$30⅛	$20	$26	$17½	$1.62	$1.370

**On the New York Stock Exchange.*

Condensed Financial Statements—Aurrera, S.A. *(Unaudited)*

The Company had a 41.7% interest in Aurrera, S.A. as of February 2, 1980 and February 3, 1979. Jewel's investment, carried on the equity method, constituted 5.8% and 5.1% of its total assets at those respective dates. Jewel's equity in the net earnings of Aurrera, S.A. constituted 28.7% and 20.6% of Jewel's consolidated net earnings for the fiscal years ended February 2, 1980 and February 3, 1979, respectively.

The financial statements of Aurrera, S.A. at December 31, 1979 and 1978 are based upon audited financial statements examined by a major international public accounting firm as of July 31, 1979 and 1978, the end of Aurrera's fiscal year, and unaudited financial statements for the period from August 1 to December 31. Following is a condensed summary of Aurrera's financial statements:

Statements of Financial Position

(In thousands)

As of Dec. 31,	1979	1978
Aurrera (in Pesos)		
Current assets	Ps.3,509,370	Ps.2,448,348
Properties, net*	3,576,116	2,111,305
Total assets	7,085,486	4,559,653
Current liabilities	3,595,937	2,382,860
Long-term debt	33,020	10,511
Net assets per Aurrera statements*	Ps.3,456,529	Ps.2,166,282
U.S. translation	$ 186,054	$ 131,375
Reconciliation to Jewel's Investment		
Equity in net assets per Aurrera statements	$ 77,570	$ 54,773
Adjustments to conform with Jewel's accounting practices:		
Cumulative income adjustments	1,808	1,006
Reorganization/revaluation adjustments not recognized by Jewel* . .	(33,460)	(19,583)
Excess of cost over acquired net assets	12,550	12,550
Carrying value of investment	$ 58,468	$ 48,746

Statements of Earnings

(In thousands)

Year Ended Dec. 31,	1979	1978
Aurrera (in Pesos)		
Sales	Ps.15,407,889	Ps.10,985,290
Earnings before statutory profit sharing and income taxes	1,608,905	1,069,067
Statutory profit sharing . . .	(114,351)	(86,078)
Income taxes	(604,948)	(460,152)
Net earnings per Aurrera statements*	Ps. 889,606	Ps. 522,837
U.S. translation .	$ 37,357	$ 21,268
Reconciliation to Jewel's Equity in Net Earnings		
Equity in net earnings per Aurrera statements	$ 15,575	$ 9,162
Adjustments to conform with Jewel's accounting practices*	703	335
Dividend withholding tax provided	(1,735)	(1,021)
Equity in net earnings of Aurrera, S.A.	$ 14,543	$ 8,476

**Includes effects of revaluation of properties to recognize inflation.*

Information on Effects of Changing Prices *(Unaudited)*

The financial information presented on pages 20 through 30 has been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars. It is generally recognized that financial statements prepared under the historical cost basis do not adequately reflect the effects of inflation. In an attempt to measure the effects of inflation, the Financial Accounting Standards Board (FASB) has issued Statement No. 33—Financial Reporting and Changing Prices, requiring certain public companies to include in their annual reports as supplementary information adjusted historical financial information to illustrate the impact of changing prices.

The accompanying Supplemental Statement of Earnings and Five-Year Comparison of Selected Financial Data were prepared in accordance with Statement No. 33, which requires that the effects of general inflation on operations be measured by the Consumer Price Index for all Urban Consumers (CPI-U). This measure of inflation encompasses a wide range of commodities such as food, housing, medical care and energy costs, and assumes consumers continually purchase fixed quantities of the same goods and services regardless of price and alternative substitutes. This Index is not representative of the changing sales mix in the Company's food, drug and other retail businesses and therefore will not necessarily disclose the impact of inflation on such businesses.

As required by Statement No. 33, the adjusted information was prepared by converting inventory, property, cost of sales, and depreciation expense into average 1979 ("constant") dollars using the CPI-U index. During inflationary periods, the above adjustments to cost of sales and depreciation expense will always result in higher expenses and consequently lower earnings. Similar to many other food and drug retailers, the Company generally follows the practice of setting selling prices using a fixed or "targeted" gross margin rate based upon the costs that have to be covered. Consequently, when the costs of doing business are increased to adjust for the effects of general inflation without a comparable adjustment to sales, earnings will always decrease.

Statement No. 33 does not permit any adjustments to income tax expense because companies are not permitted for income tax purposes to recognize the effects of inflation. As a result, in the accompanying statement income taxes of $23,244,000 must be provided despite an inflation-adjusted pre-tax loss of $4,613,000; this demonstrates that income taxation is not based on true economic gain and that the effective tax burden is far greater in periods of high inflation than indicated by statutory rates.

The net effect of inflation adjustments to inventory, property and monetary liabilities is an increase in the shareholders' equity of the Company, partially the result of a purchasing power gain on net amounts owed. During a period of inflation, holders of monetary assets (as defined by Statement No. 33) suffer a loss of general purchasing power, while holders of monetary liabilities experience a gain. Since the Company's monetary liabilities at each year end were larger than the monetary assets, an unrealized gain results. The gain will not be realized, however, until the liabilities are paid in the future with dollars of less purchasing power. Similarly, the increase in shareholders' equity is not available for dividends until the revalued net assets are realized at the inflation-adjusted amounts.

The accompanying supplemental information regarding Jewel's operations should be used with care. Management does not believe that this restatement of Jewel's financial results properly reflects the effect of inflation on the Company's operations. Further, the restated net assets should not be interpreted as a measure of the current value of the Company's resources.

1979 Statement of Earnings
Adjusted for General Inflation (Constant Dollar)

(In thousands except per share data)

	As Reported in the Primary Financial Statements	Adjusted for General Inflation
Sales	$3,764,266	$3,764,266
Costs of Doing Business:		
Cost of goods sold	2,958,339	2,995,339
Depreciation and amortization	56,663	83,663
Selling, general and administrative expenses	666,112	666,112
	3,681,114	3,745,114
Operating Earnings	83,152	19,152
Net Interest Expense	(23,765)	(23,765)
Earnings (Loss) of U.S. Companies Before Income Taxes	59,387	(4,613)
Income Taxes	23,244	23,244
Earnings (Loss) of U.S. Companies	36,143	(27,857)
Equity in Aurrera, S.A.	14,543	14,543
Net Earnings (Loss)	$ 50,686	$ (13,314)
Net Earnings (Loss) per Common Share	$ 4.54	$ (1.19)
Net Assets	$ 377,635	$ 648,000
Gain from Decline in Purchasing Power of Net Amounts Owed		$ 66,000

Five-Year Comparison of Selected Financial Data
Adjusted for General Inflation (1979 Constant Dollars)

(Dollars in thousands except per share amounts)

	1979	1978	1977	1976	1975
Sales (includes Turn•Style prior to 1978)	$3,764,266	$3,928,885	$3,951,251	$3,831,276	$3,824,219
Cash dividends declared per share	1.68	1.57	1.57	1.64	1.63
Market price per share at year-end	27.00	21.63	21.89	29.65	28.37
Average Consumer Price Index for all Urban Consumers (1967 = 100.0)	220.0	196.9	182.5	171.2	162.1

Five-Year Review
Jewel Companies, Inc.

(In thousands except per share data)

	1979	1978*	1977	1976	1975
Operating Results					
Sales:					
Supermarkets	$2,817,944	$2,681,639	$2,419,475	$2,173,561	$2,065,879
General merchandise stores**	608,304	584,889	654,888	617,423	565,921
Other operations	338,018	249,824	203,379	190,445	185,954
Total sales	$3,764,266	$3,516,352	$3,277,742	$2,981,429	$2,817,754
Operating earnings before unallocated expenses:					
Supermarkets	$ 57,496	$ 52,159	$ 40,966	$ 33,041	$ 31,046
General merchandise stores**	21,312	15,971	19,196	22,967	18,031
Other operations	6,585	7,799	4,869	7,725	5,743
Total	85,393	75,929	65,031	63,733	54,820
Unallocated—net†	(2,241)	233	(849)	(1,794)	(1,517)
Operating earnings	83,152	76,162	64,182	61,939	53,303
Losses on facility dispositions		(712)	(9,242)	(1,289)	
Interest income	2,375	2,945	781	836	879
Interest expense	(26,140)	(23,532)	(22,861)	(21,528)	(22,130)
Earnings of U.S. companies before income taxes	59,387	54,863	32,860	39,958	32,052
Income taxes	23,244	22,197	11,163	16,252	11,314
Earnings of U.S. companies	36,143	32,666	21,697	23,706	20,738
Equity in net earnings of Aurrera, S.A.	14,543	8,476	4,889	12,056††	7,545
Net earnings	$ 50,686	$ 41,142	$ 26,586	$ 35,762	$ 28,283
Percent of shareholders' average equity	14.0%	12.1%	8.1%	11.6%	9.7%
Depreciation and amortization	$ 56,663	$ 53,692	$ 51,104	$ 46,024	$ 44,833
New land, buildings and equipment:					
Jewel Companies, Inc.	76,142	69,624	67,717	45,115	42,253
Capital leases	4,053	1,397	3,000	1,461	8,019
Real estate affiliates	7,720	11,301	12,366	12,397	13,944
Per Share Results					
Earnings per common share	$ 4.54	$ 3.59	$ 2.29	$ 3.10	$ 2.47
Dividends paid per common share (present annual rate $1.68)	1.62	1.37	1.30	1.25	1.20
Percent of net earnings	36%	38%	57%	40%	49%
Equity per common share	$ 33.69	$ 30.87	$ 28.58	$ 27.64	$ 25.84
Common Stock Information					
Number of shareholders	13,925	14,596	14,973	15,152	14,746
Average number of shares (in thousands)	11,155	11,442	11,576	11,507	11,452
Price range—high	$ 30⅛	$ 26	$ 26½	$ 24¼	$ 25⅞
low	20	17½	18⅛	19¼	16⅞
year end	28⅝	20⅛	18⅝	23⅝	21½
Financial Position					
Working capital	$ 131,006	$ 114,578	$ 118,499	$ 96,570	$ 91,667
Total assets	1,012,367	958,138	914,156	844,912	804,058
Long-term debt, less current maturities:					
Jewel Companies, Inc.	159,624	142,195	147,636	130,969	135,403
Real estate affiliates	123,450	126,357	126,511	118,922	118,341
Common shareholders' equity	376,766	343,579	331,614	318,868	296,882
Other Statistical Data (000's)					
Employees (full-time equivalents)	33.4	33.4	35.2	35.1	35.0
Square footage of retail stores:					
Supermarkets	10,562	10,523	10,500	10,186	10,020
General merchandise stores**	4,644	4,582	6,627	6,409	6,276
Other operations	2,014	1,068	898	852	845
Total at year end	17,220	16,173	18,025	17,447	17,141

**53-week year, other years 52 weeks.*
***Includes Turn*Style prior to its sale in June 1978.*
†Unallocated consists principally of general corporate expenses and miscellaneous income.
††Includes $3,829 or $.33 per share due to the devaluation of the Mexican peso on September 1, 1976.

Directors

Raymond C. Baumhart, S. J.
President, Loyola University of Chicago

Karl D. Bays
Chairman and Chief Executive Officer,
American Hospital Supply Corporation
(Health Products and Services)

Silas S. Cathcart
Chairman and Chief Executive Officer,
Illinois Tool Works, Inc.
(Fasteners, Tools, Electronic Components
& Plastic Packaging Products)

Weston R. Christopherson
President and Chief Executive Officer

Richard G. Cline
Vice Chairman and Chief Operating Officer

Stephen M. DuBrul, Jr.
Consultant and Private Banker

Lawrence E. Fouraker
Professor of Business Administration
Harvard Business School

Richard B. Ogilvie
Partner, Isham, Lincoln & Beale (Attorneys)

James E. Olson
Vice Chairman,
American Telephone and Telegraph Company

Donald S. Perkins
Chairman, Board of Directors

Barbara Scott Preiskel
Senior Vice President and General Attorney,
Motion Picture Association of America, Inc.

Robert W. Reneker
Chairman, Board of Trustees,
The University of Chicago

Committees of the Board of Directors

Audit Committee
R. C. Baumhart, S. J., Chairman
L. E. Fouraker
R. B. Ogilvie
R. W. Reneker

Nominating Committee
L. E. Fouraker, Chairman
S. S. Cathcart
R. W. Reneker

Salaries and Employee Benefits Committee
S. S. Cathcart, Chairman
K. D. Bays
S. M. DuBrul, Jr.
J. E. Olson
B. S. Preiskel

Executive Committee
D. S. Perkins, Chairman
S. S. Cathcart
W. R. Christopherson
R. B. Ogilvie

Corporate Officers

Donald S. Perkins
Chairman, Board of Directors

Weston R. Christopherson
President and Chief Executive Officer

Richard G. Cline
Vice Chairman and
Chief Operating Officer

Lawrence Howe
Executive Vice President,
Finance and Law

Clifford R. Johnson
Executive Vice President,
Real Estate and Construction

John N. Balch
Vice President and Treasurer

Robert P. Dorsher
Vice President,
Personnel and Industrial Relations

Lawrence J. Fernstrom, Jr.
Vice President, Information Systems

Robert D. Jones
Vice President, Public Affairs

Gene B. Kilham
Vice President and Controller

Charles E. McClellan
Vice President, Taxes

Samuel J. Parker
Vice President, Business Development

Jacob J. Schnur
Vice President and
Assistant General Counsel

Robert F. Berrey
Secretary

Annual Meeting
Monday, June 16, 1980
2:00 C.D.S.T. at Harris Trust and Savings Bank
111 West Monroe Chicago, Illinois

Transfer Agent and Registrar
Manufacturers Hanover Trust Company
Four New York Plaza
New York, New York 10015

Common Stock Listing
New York Stock Exchange
Midwest Stock Exchange

Corporate Office
O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

SEC Form 10-K
Copies of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission may be obtained without charge upon request to:

Robert F. Berrey, Secretary
Jewel Companies, Inc.
5725 N. East River Road
Chicago, Illinois 60631

Jewel Companies, Inc.
O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

Bulk Rate 345
U.S. Postage
PAID
Chicago, Illinois
Permit No. 2971